



Snake River Alliance

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UTILITIES COMMISSION

November 13, 2013

To: Idaho Public Utilities Commission

From: Ken Miller, Clean Energy Program Director, Snake River Alliance

Re: Snake River Alliance Comments In the Matter of Avista Corporation's 2013 Electric Integrated Resource Plan, Case No. AVU-E-13-07.

On behalf of our members throughout Avista Utilities' Idaho service area, the Snake River Alliance appreciates the opportunity to provide its comments on Avista's 2013 Electric Integrated Resource Plan. (IRP), filed with the Commission on Aug. 29, 2013.

Introduction

Avista Utilities' 2013 IRP, like those submitted by the two other investor-owned utility IRPs submitted to the Commission this year, portrays an electric utility with reduced annual load growth expectations and also a utility that does not anticipate energy or capacity deficits until around 2020, with the exception of sporadic winter peaking deficits that the Company anticipates meeting with market purchases. Nonetheless, Avista's Preferred Resource Strategy (PRS) and its action plan contemplates the addition of four natural gas plants during the course of this IRP, through 2032.

We are concerned by what appears to be a lack of enthusiasm at Avista for both demand-side management and also renewable energy measures, as reflected on P. vii of the IRP:

"The 2013 PRS is significantly different from the 2011 IRP resource strategy; the 2011 PRS is in Table 2. Since the prior plan, Avista's renewable and capacity needs have changed. Adding Palouse Wind to Avista's resource mix in December 2012 satisfied the 2012 Northwest Wind component of the 2011 PRS. Changes in the Washington State Energy Independence Act (EIA) eliminated the need for a 2019/2020 wind resource. The amendment under SB5575 adds the Kettle Falls Generating Station, and other legacy biomass plants, as EIA qualifying resources beginning in 2016. The 2011 IRP forecast 1.6 percent annual load growth, while this IRP forecasts just over 1 percent growth. Lower expected load growth delays the first natural gas-fired resource need by one year and eliminates the need for a combined cycle combustion turbine in 2023."

Rather than plan for more aggressive acquisition of clean energy resources (while coincidentally reducing greenhouse gas emissions) Avista justifies its lackluster record on DSM and renewables by claiming as renewable some resources that previously did not qualify under Washington State's RPS

(Initiative 937), while at the same time saying reduced load growth makes certain other resource acquisitions unnecessary, although the Company still anticipates adding nearly 500MW of new gas-fired generation.

While the Alliance questions the need and the associated risks associated with adding four more natural gas plants to Avista's existing system, we are most concerned about the Company's ongoing commitment to its 15 percent share (222MW) of the Colstrip Generating Station near Billings, MT. We begin our comments with the Colstrip situation.

Colstrip

Of the three regulated electric utilities serving load in Idaho and to its credit, Avista is least reliant on coal-fired generation, all the more so subsequent to Avista's sale of its 210MW share of the Centralia plant in Washington state in 2000. Nonetheless, like Idaho's other electric IOUs, Avista shows no inclination to prepare for the eventual closure of Colstrip, or at a minimum divesting its share of the plant. In our view, Avista's dedication to Colstrip continues to place undue risk on the utility's Idaho customers.

In its Notice of Filing Order No. 32888, this Commission refers to Avista's Expected Case scenarios since 2007 have included forecasts of greenhouse gas emissions costs. In its 2013 IRP, Avista opts against modeling for greenhouse gas emissions costs:

"Based on current legislative priorities and the President's Climate Action Plan, the Company says a national greenhouse gas cap-and-trade system or tax is no longer likely. Therefore, the 2013 Expected Case does not include a market or tax solution to reduce emissions. Instead, because the states and the federal Environmental Protection Agency are implementing regulatory models limiting emissions for new facilities, and requiring current facilities to either implement best available control technologies or shut down, the 2013 IRP forecasts significant numbers of plant retirements to meet these environmental rules."

We agree that expected amendments to the federal Clean Air Act Section 111(d) regarding emissions from existing coal-fired power plants will almost certainly prompt the early retirement of coal plants nationwide, although those amendments will not be formulated by EPA in the form of a proposed rule until June 2014. And while we agree that the details of that rule cannot be known at this time, it is known that some form of emission controls from existing coal-fired power plants are forthcoming. This Commission acknowledged such a possibility in its Order No. 32890 (In the Matter of PacifiCorp DBA Rocky Mountain Power's 2013 Integrated Resource Plan, Case No. PAC-E-13-05):

"The Commission also acknowledges that recent history has demonstrated that attempts by energy analysts to predict carbon pricing is fraught with failure and uncertainty. However, it seems more likely than not that the EPA will move forward and enact additional regulations of fossil fuels under the federal Clean Air Act. In light of this contingency, it appears to be in the best interest of the Company and its customers to continue to evaluate and devote more focus on the development of alternative energy resources."

Given Avista's acknowledgment in this IRP that expected greenhouse gas (GHG) emissions regulations might prompt widespread coal plant retirements in the Western United States, we are mystified by Avista's apparent position that the Colstrip Generating Station will somehow survive the coming regulatory regime unscathed. Colstrip Units 3 and 4 are both approaching 30 years in operation, having been commissioned in 1984 and 1984, respectively. Avista has no ownership interest in Colstrip Units 1

or 2.

If any coal plant serving Idaho load is a candidate for retirement, it is Colstrip. Avista's interest in Colstrip is in Units 3 and 4, which are exposed to unknown additional environmental compliance costs that are not adequately detailed in Avista's 2013 IRP. As we have with other electric utilities that have submitted IRPs this year, the Alliance recommends that the Commission withhold acceptance of any portions of this IRP that envision indefinite operations of Colstrip until such time as Avista provides the Commission with more details about the expected costs (such as they can be determined) of all known and anticipated environmental regulations that will require new investments in Colstrip Units 3 and 4. We understand that Avista is a minority owner of Colstrip, but that does not relieve Avista of its responsibility to provide this Commission with adequate details on how the costs of existing and future environmental compliance will impact Avista's customers. Such an analysis should also include any possible risk exposure associated with the ongoing civil litigation by the Sierra Club and the Montana Environmental Information Center regarding Colstrip and its pollution-control requirements.

Given the uncertain regulatory landscape that exists today, many of these costs cannot be known. What is known is that they will be substantial. What is also known is that the future ownership of Colstrip is uncertain. Majority owner PPL Montana has announced plans to divest its interest in the plant, although no potential buyers have been identified. At a minimum, we recommend that Avista be directed to initiate contingency planning for the possibility that one or more of Colstrip's four units may be decommissioned. Given the regulatory uncertainty referenced above, we also question how the indefinite participation in the Colstrip plant can be considered Avista's "least reasonable cost" alternative, particularly when the cost of operating Colstrip going forward is not known.

This Commission is well aware of the risks that ongoing coal investments have posed to Idaho's other two electric IOUs. Now, Avista faces similar challenges. The longer it remains invested in Colstrip, and the more ratepayer dollars it must spend on the plant to maintain its environmental compliance, the more expensive it will be when Avista must determine how to replace the 222 megawatts it receives from the plant. Moreover, given Colstrip's history of uneven operations, Avista does not truly face replacing that amount of power. Rather than modeling the cost of replacing Colstrip's *nameplate* capacity, Avista should be modeling the actual amount of power delivered annually.

We disagree with Avista's statement on P. 4-4 that, until such time as a federal GHG reduction regime is enacted, "a specific reduction strategy" must await future IRPs "when greater regulatory clarity and better modeling parameters exist."

We also question Avista's findings (Table 8.13: No Colstrip Resource Strategy Scenario, P. 8-26) that appears to indicate that, without Colstrip as a resource, Avista would need to acquire *seven* additional natural gas plants (CCCT and SCCT) with a nameplate capacity of nearly 800MW. Again, this calculation appears to be based on Colstrip's nameplate capacity, which is never reached, rather than its actual output, which is considerably lower. Similarly, Avista's estimated costs for removing Colstrip Units 3 and 4 must be called into question, if in fact it does not need to replace the full 222MW.

Natural Gas

Avista's IRP contemplates the addition of an 83MW simple cycle combustion turbine (SCCT) in 2019; another 83MW SCCT in 2023; a 270MW combined cycle combustion turbine in 2026; and a 50MW SCCT in 2032.

While natural gas generation is by far a cleaner alternative to coal-fired generation, we remain concerned

that Avista is already very long on natural gas, and that this IRP will increase ratepayer exposure to natural gas price volatility as well as uncertain supplies. Avista acknowledges this challenge on P. 4-1 of its IRP:

“Higher fuel price volatility has historically affected the economics of natural gas-fired plants. Their performance also decreases in hot weather conditions, it is increasingly difficult to secure sufficient water rights for their efficient operation, and they emit significant greenhouse gases relative to renewable resources.”

The Alliance agrees with Avista that natural gas plants present unique challenges to electric utilities. Given that the bulk of these proposed gas-fired generation additions are 10 years or more out, we suggest that the Commission direct Avista to begin analyzing other alternatives, including demand response measures, to replace any deficits that would otherwise be filled by one or more of these gas plants.

The Commission is aware of the costs to acquire a natural gas resource, and as mentioned this IRP contemplates several of them over the course of the plan. We recommend that the Commission examine closely the cost-benefit of acquiring these assets when alternatives, such as demand response, might capably fill the same role in meeting peak demand. Avista notes on P. 8-12:

“Beginning in 2019, additional emissions will occur from new peaking resources, but these resources will not affect overall emissions levels much due to low projected runtime hours.”

We appreciate that some of these gas peaking plants will not be dispatched often, but that raises questions about their efficacy in Avista’s overall portfolio.

Demand-Side Management

We appreciate that Avista’s DSM measures will forestall the need to additional supply-side resources, and in that without these measures the Company would face deficits sooner than the projected 2020 dates. We are pleased that, with this IRP, Avista plans to begin to incorporate demand response programs into its portfolio and encourage the Company to become comfortable with DR as quickly as possible so that it can be incorporated into future PRS’s as a possible replacement for natural gas peaking units. Avista states on P. 8-11 that it is possible that DR can defer or eliminate the need for the 2019 simple cycle gas plant acquisition “depending on its achievable potential and the actual costs incurred to procure it.” Clearly, Avista has a DR learning curve ahead of it, but we applaud its decision to dive into the demand response pool and we hope the Commission provides all the encouragement possible to ensure Avista’s DR research and future development are successful.

However, we believe the 19MW of DR identified in the PRS (acquisition range: 2022-2027) is unacceptably unambitious and we recommend the Commission direct Avista to further analyze its DR potential. Avista forecasts that its GHG emissions will *increase* over the course of this IRP, and an underwhelming deployment of DSM resources is the leading culprit.

Avista notes that GHG emissions across the Western Interconnect will decline over the same period due to the retirement of *other* coal plants, but it attempts to explain its anticipated *increase* in GHG emissions by pointing out its GHG emissions footprint is lower than most Western utilities to begin with. We disagree. Planning 492MW of natural gas plants and upgrades over the course of this IRP while planning for a meager 19MW of DR does not reflect a serious effort to reduce carbon emissions.

Net Metering

The IRP states at P. 2-20 that:

"A small but growing number of customers continue to install their own generation at an increasing pace. In 2007 and 2008, the average new net-metering customers were 10, and between 2009 and 2012, the average increased to 38 per year, likely in responses to generous federal and state tax incentives."

Avista then describes other incentives, such as the federal tax credit and tax incentives in the state of Washington. Currently, according to the IRP at P. 2-21, 190 customers system-wide have installed net-metered generation equipment for a total of 1.1 MW of capacity. That is the equivalent of .5 percent of Avista's generation capacity. Avista warns on P. 2-21 that, "If the number of net-metering customers continues to increase, Avista may need to adjust rate structures for customers who rely on the utility's infrastructure but do not contribute financially for infrastructure costs."

The Commission is by now well aware of the myriad issues involved in electric utility net metering programs. We fail to see how 190 customers is reason for the kind of alarm referenced in the above passage – perhaps triggering a filing for a rate adjustment for net metering customers. As the Commission is now well aware, net metering customers provide more benefits to their utility than they detract from it. If Avista's warning that it may seek to "adjust rate structures" is intended as a caution that a .5 percent of capacity net metering rate is becoming a problem, then we recommend the Commission inquire to the Company what it believes an appropriate net metering penetration rate would be and why such a low percentage of net metering customers on Avista's system is creating potential problems.

Conclusion

The Alliance appreciates the extraordinary amount of effort that Avista and stakeholders put into development of this IRP. We believe the document is commendable and for the most part defensible. However, as mentioned above, we have significant concerns about Avista's position on its Colstrip resource and we believe the impacts of divesting ownership of Colstrip and replacing its 222MW of nameplate generation has been overstated and must be revised. We also recommend that the Commission review Avista's commitment, or lack thereof, to future DR investments, DSM investments in general, and its plans to acquire significant amounts of new gas-fired generation.

Respectfully submitted,



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